FLEURUS INVESTMENT ADVISORY

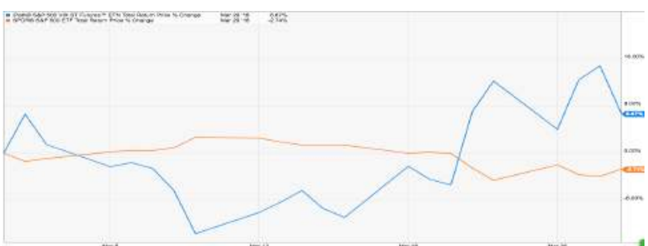
April 4, 2018

Overview

Jawboning on trade issues by the Administration in the early part of March, combined with Tech-related woes in the latter part of the month, shook investors' confidence and prompted them to close the first quarter of the year on a negative note. The S&P's 500 dropped 2.54% during the month and most developed equity markets in Europe and Japan followed suit. The EPAC BMI lost 1.81% while emerging markets slumped 2.03% (MSCI EM). Meanwhile, frontier markets managed to squeak by and avoid losses. The FM 100 rose .34%.

The US fixed income markets marginally added to performance with the municipal bond sector up .34% while the corporate sector rose a tiny .50%. More spectacular were the performances in the commodity and the real estate sectors. Reits, particularly European reits, contributed meaningfully. IFEU, was up 5.30% in March while USL, our preferred oil ETF, was up 6.58%.

The chart below shows the increase in volatility during the month (blue line) and the performance of the S&P's 500 (orange line) over that period.



By these indicators, volatility rose 17% while the S&Ps' 500 was losing over 2.50%.

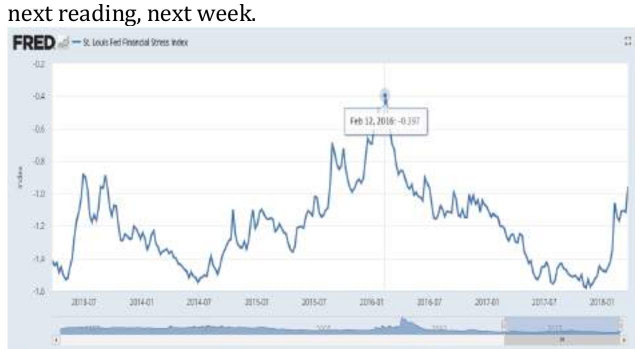
In March, our client portfolios hovered between -.12% and up .14%. This compares to a monthly performance of -1.11% for a purely US-centric portfolio consisting of 50% SPY (S&P's 500 ETF) and 50% BIV (US bond aggregate proxy), over the same period.

On a year to date (YTD) basis our portfolios are flat to up .50%, net of fees. This compares to a performance of -1.41% for our benchmark. As a reminder, our allocations to equities currently vary from a minimum of 40% to a maximum of 60%, depending on the risk profile of each client.

Market developments

Global equity markets were shaken this month by a combination of aggressive trade rhetoric coming from the White House, a wobblier tech sector unsettled by Facebook's woes and investors' on-going concerns about high equity valuations and rising interest rates. Stress is rising.

The chart below shows the Fed's stress index as of March 23. It is likely that the rising line to the right will be higher at the next reading, next week.



The five-year high point on this graph was on February 2016. If I had to guess where the next data point will end up, I would put it at that February 2016 level again. If that were the case, we would still be below the historical average for this index. So, while we can worry about that, there is no need to panic yet. More immediately concerning is the S&Ps' 500. As I write this letter, it closed down 2.5% today (April 2) and is now standing just below its 200-day moving average. If it bounces back significantly off this level, tomorrow or by the time you see this letter, we may be out of trouble in the short term. If it does not, more serious pain may ensue. The chart below tells this story clearly. The S&P's rests on a key support level (orange line). Let's hope it does not go through it cleanly. If it does, we may be in for another 5%-10% downdraft.

Tilts and allocations

Since the last months of 2017 our investment posture has been rather defensive. Our equity allocations have remained low. Our prudence comes from a variety of factors, ranging from historically high equity valuations to rising interest rates and stubbornly high geopolitical tensions. Until recently, the equity markets had managed to set those concerns aside. It does not seem to be the case anymore.

Anticipating all of this, we have gradually built a 5% gold position in each portolio and bought and sold volatility as a way to mitigate losses. In doing so, we have managed to marginally contribute to performance. These small moves, in the aggregate, largely explain our out-performance so far this year. Doing more to protect portfolios in an otherwise supportive economic environment, in the US and globally, does not seem warranted yet, in spite of the rising maket volatility.

In March, in keeping with this approach, we refrained from major intitiatives. In a fast moving market, we carefully examined all our investments and their performances against their respective benchmarks. We found one emerging equity position wanting and decided to sell it in favor of another. Specifically, we sold ECON in favor of VWO.

ECON's performance has been disappointing since the beginning of the year and not on par with other ETFs in the sector. Below is a chart showing both ECON (blue line) and VWO (orange line) YTD.

Other than for this relative and qualitative investment action, we did not take any new investment initiative during the month.

Concluding remarks

Today, April 3, the S&P's 500 bounced nicely off its 200 moving average. That's good! Let's see if it can stay above that level (2589 for those among you who are technically oriented).

If that is the case AND the first quarter earnings announcements, later this month, are market-supportive, we may gradually and safely move away from the choppy waters we find ourselves in currently.

As usual, feel free to contact me with questions or comments.

Best regards.